

VZCZCXRO2346
RR RUEHCN
DE RUEHGZ #8541/01 0860902
ZNR UUUUU ZZH
R 270902Z MAR 06
FM AMCONSUL GUANGZHOU
TO RUEHC/SECSTATE WASHDC 1994
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUCPDOC/USDOC WASHDC
RUEAIIA/CIA WASHDC
RUEKJCS/DIA WASHDC
RHHMUNA/HQ USPACOM HONOLULU HI

UNCLAS SECTION 01 OF 03 GUANGZHOU 008541

SIPDIS

SENSITIVE
SIPDIS

USDOC FOR 4420/ITA/MAC/MCQUEEN
STATE ALSO PASS USTR/STRATFORD, MENDENHALL, MCCOY
USPACOM FOR FPA

E.O. 12958: N/A

TAGS: ECON WTRO EINV PGOV CH

SUBJECT: Consulate General Guangzhou Lending a Helping Hand
to Guangdong's American Insurance Companies

(U) This document is sensitive but unclassified. Please
protect accordingly. Not for release outside U.S.
Government channels. Not for internet publication.

¶11. (SBU) Summary: Representatives of American insurance companies operating in Guangdong province commented that while the insurance environment in Guangdong has improved, many problems still need to be resolved as the industry expands in China. In particular, American companies are concerned about local companies using conglomerates to hinder foreign competition, a practice that goes against the spirit of China's WTO commitments. The representatives described further problems limiting American companies from expanding including outdated insurance laws and different interpretations of national laws at local levels; the industry's over reliance on a premium collection-driven model versus a risk reduction strategy; uncontrolled and unethical agents; inexperienced regulators and consumers; and the lack of trained personnel with the necessary skills within the industry to handle an ever-expanding market. The Consul General agreed to send a letter to Guangdong's Vice-Governor Song Hai requesting that China meet its WTO obligation to open its insurance market to U.S. insurance companies. End Summary.

Regulatory Environment Slowly Improving

¶12. (U) In late February Congenoffs met with Burton Lai, general manager of American Insurance Association (AIA); Simon Foo, general manager of American International Group (AIG); and Augustine Chow, deputy head of Met-life's Preparation Committee. Insurance representatives say that the regulatory environment in Guangdong is generally beneficial for American firms, and has improved in the past few years, though termed it "slow paced". However, there are still difficulties with often unclear and inconsistent enforcement of regulations. They all agreed that the Guangdong provincial government had welcomed them with open arms. The representatives also stated that local branch of the China Insurance Regulatory Commission (CIRC), while generally a positive force for developing the sector, could be a double-edged sword, being lenient on some occasions, while making narrow interpretations on others apparently to avoid criticism from Beijing for perceived leniency.

CIRC Takes Lessons From Foreign Regulators

¶13. (U) CIRC plans to improve its governance by sending study groups abroad to look at foreign insurance companies, which

are usually good exemplars of regulation compliance and high-standard operations. Compared to the banking industry, where foreign companies are subject to sudden penalties imposed by the banking regulators, the insurance companies in Guangdong receive a warning first and are given the opportunity to remedy their practices and conduct self-audits. The Guangdong insurance regulators, according to these managers, are beginning to take a mild and encouraging approach, allowing companies to remedy malpractice via internal audits, and being tolerant as long as companies do not repeat their mistakes.

Battling Conglomerates

¶4. (U) Insurance representatives also expressed concern about local companies engaging in collusion to prohibit foreign competition in certain sectors, such as the travel accident and construction safety insurance sectors. The local companies form conglomerates that can then exert unfair influence on the industry to slice the pie for itself. Instead of using their influence to enhance operational standards or improve poor safety records, the conglomerates allow protected Chinese companies to become complacent, unafraid of better competitors. Local companies also engage in co-insurance among themselves, a practice which spreads risk and prevents disaster- but also limits competition.

The Perils of Emphasizing Premium Collection

¶5. (U) Another major issue for the industry is the emphasis on premium collection. Two years ago 85% of industry revenue came from single (one-time) premium collection. The industry is gradually switching to regular premium coverage

GUANGZHOU 00008541 002 OF 003

due to the gradual greater sophistication of Chinese insurance managers. The industry has yet to move to the more mature strategy of risk-reduction, however, representatives say insurance practices are improving with increasing sales on an individual-to-individual basis rather than company-to-company sales as before.

Staffing Challenges

¶6. (U) Insurance representatives described Chinese firms as lacking competent staff, particularly agents. Agents are not well controlled by the industry and offer 70-80% discounts on quoted premiums, particularly in the auto sector, in order to collect their percentage of the sale. Representatives described inland insurance services as particularly poor with firms intentionally cheating customers and not providing services. The National CIRC drafts regulations for all of China despite dramatic differences in provincial needs and capabilities. As a result, this process has limited market development in more developed cities and regions of China. The recently promulgated Draft Rules for the Administration of Insurance Sales Agents impose a ban on signing entrustment contracts with two separate insurance companies by an agent. This is in an effort to correct the problems associated with this model.

Learning the Ropes

¶7. (U) The major factor holding back the industry remains its relative youth. Chinese insurance companies still lack an understanding of shareholder interests. The People's Insurance Company of China Group (PICC) is in the process of restructuring and trying to privatize. AIG representative Foo said PICC restructuring will take a long time but will succeed in the end (AIG has a 9% share of PICC). Regulators are still inexperienced and many of them do not have international exposure. Augustine Chow from Met-life expressed that companies were in a disadvantaged position when they had to work with regulators who knew little about

the market. There are limited training opportunities for those within the industry, as well as for those using insurance products.

¶8. (U) Although Guangdong is adjacent to Hong Kong, there is limited talent flow between the two and industry attempts to bring Hong Kong insurance expertise has gotten a lukewarm response from Guangdong firms. Lai from AIA said he found recruitment difficult because the applicants' experiences in local insurance companies were not relevant to the modern insurance industry. He said he often ended up recruiting students from other disciplines and training them completely. As an additional measure to fill slots with experienced people, foreign firms have also hired Taiwan and Malaysian Chinese since they also speak Mandarin. Congenoffs also learned that Met-Life got Tsinghua University in Beijing to recently establish a joint post-graduate program with the University of Connecticut to supply first-class actuaries.

Consulate Intervention

¶9. (SBU) The Consul General recently wrote a letter to Vice-Governor Song Hai of Guangdong province noting that under its WTO accession agreement China is committed to opening its insurance market and noting the submission of an application by the Guangzhou branch of AIU Insurance, the parent company of AIG, for a license to operate throughout Guangdong Province. This follows China's lifting of geographical restrictions on foreign insurance companies in ¶2005. (Note: Simon Foo subsequently told the Consul General that AIU received a written acknowledgement of its application, a response that virtually never happens. He saw the acknowledgement as a positive and direct response to the Consul General's letter. End note.) The Congenoffs also discussed the offering of seminars by American insurance companies in Guangzhou to educate stakeholders in the insurance industry. Firms highlighted needs for programs in risk management, innovative products, insurance banking, and intellectual property rights. In addition, regulators might benefit from participating in the International Visitors program. The Consulate subsequently nominated a couple of insurance regulator for the IVP for FY

GUANGZHOU 00008541 003 OF 003

¶2007.

Enlarge the Pie

¶10. (U) AIG and AIA stressed the need to open more markets in more areas in order to operate on a larger scale. Met-Life said that while its operations in Guangdong were generally going well, it still faced local protectionism, growing anti-competitive actions by conglomerates especially in the construction industry, and limiting insurance laws that caused it to operate in uncertain gray areas that would be legal in most developed insurance markets.

Comment:

¶11. (SBU) American insurance companies in South China still face some major challenges. They acknowledge the steep learning curve involved in navigating the local markets as well as a changing, but still limiting, regulatory environment. They can take advantage of the Consulate's ability to act as a neutral party in helping to educate the regulators and consumers about advancing industry development. All in all, the future of the industry looks bright. As South China's economy continues to boom, these companies can look forward to claiming a growing piece of the pie.

DONG